

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

EDUCATION FUNDING FORMULA REVIEW COMMITTEE

Tuesday, July 30, 2019
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Mark S. Owens, Vice Chairman, called the meeting to order at 10:00 a.m.

Members present: Senators Donald Schaible, Joan Heckaman, Nicole Poolman, David S. Rust; Representatives David Monson, Marvin E. Nelson, Mark S. Owens, Mark Sanford

Others present: Senators Kyle Davison, Fargo; and Jay Elkin, Taylor
Dustin Assel, Legislative Council, Bismarck
See [Appendix A](#) for additional persons present.

The Legislative Council staff reviewed the [Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management](#) for the 2019-20 interim.

COMMENTS BY COMMITTEE CHAIRMAN

Vice Chairman Owens welcomed the committee. He said the committee was formed to monitor the effects of recent changes made by the Legislative Assembly to the state school aid formula and to determine what additional changes may be needed to bring all school districts on to the formula. He said due to a scheduling conflict, the chairman would join the committee later in the day and may have additional comments.

**ELEMENTARY AND SECONDARY EDUCATION
STATE AID AND FUNDING FORMULA STUDY**

At the request of Vice Chairman Owens, the Legislative Council staff presented a memorandum entitled [Elementary and Secondary Education State Aid and Funding Formula Study - Background Memorandum](#) relating to the committee's study of elementary and secondary education funding formula. The Legislative Council staff said the Education Funding Formula Review Committee was established pursuant to Section 23 of Senate Bill No. 2265 (2019) and pursuant to that section, is required to study the K-12 education funding formula, including the components, adjustments, and weighting factors of the formula.

The Legislative Council staff reviewed the history of the state school aid funding formula. She said during the 2005-07 biennium, the North Dakota Commission on Education Improvement was instructed to recommend ways in which the state's system of delivering and financing public elementary and secondary education could be improved and to specifically address the adequacy of education, the equitable distribution of funding, and the allocation of funding. The commission's recommendations became the basis for Senate Bill No. 2200 (2007), which provided for a new education funding formula. The bill consolidated education funding that had been assigned to a variety of previously existing funding categories and established new weighting factors that reflected the added costs of providing education to certain categories of students and the added costs of providing various statutorily mandated services. In addition, she said, the formula factored in the variable cost of providing services and programs in small, medium, and large school districts. After the 2007 legislative session, she said, the North Dakota Commission on Education Improvement contracted with Lawrence O. Picus and Associates (Picus) to identify the resources needed to ensure an adequate education for all students. In 2009, after reviewing the Picus report, the North Dakota Commission on Education Improvement made its own recommendations to the Legislative Assembly, many of which were enacted in House Bill No. 1400 (2009). At the conclusion of the 2009 legislative session, she said, the North Dakota Commission on Education Improvement began its third and final interim effort and provided its recommendations to the 2011 Legislative Assembly.

The Legislative Council staff said, during the 2009-11 and 2011-13 bienniums, property tax relief was provided through statewide school district mill levy grants. She said at a cost of \$299 million for the 2009-11 biennium, Senate Bill No. 2199 (2009) reduced school district property tax levies by up to 75 mills and replaced the revenue that the school districts would have lost through direct grants. She said House Bill No. 1047 (2011) provided \$341.8 million to extend the 75-mill school district property tax reduction concept through the 2011-13 biennium. She said during the course of the 2011 legislative session, concerns were articulated about the school district mill levy reduction program and about the state's ability to sustain its involvement in the program.

The Legislative Council staff said when the Legislative Assembly convened in January 2013, the principal education funding package contained a new proposal for funding elementary and secondary education, which included property tax relief provided through an integrated formula. Introduced as House Bill No. 1319, she said, the new proposal was initially defeated on the morning of the 80th day of the legislative session, but later the content was attached as an amendment to House Bill No. 1013 and enacted. She said the legislative appropriation for the state school aid program followed substantially the executive budget recommendation to integrate property tax relief in the K-12 state school aid funding formula. She said the formula change discontinued the mill levy reduction grant program and provided the state will determine an adequate base level of support necessary to educate students by applying an integrated payment rate to the weighted student units. She said this base level of support will be provided through a combination of local tax sources, local revenue, and state integrated formula payments. She said the local funding requirement is set at 60 mills and a percentage of identified local in lieu of property tax sources and local revenues. Base level support not provided by local sources is provided by the state through the integrated formula payment. In addition, she said, school districts are allowed an additional 10-mill levy for general fund purposes, an additional 12-mill levy for miscellaneous purposes, and a 3-mill levy for a special reserve fund. She said the legislation provided for a district's weighted student units to be multiplied by integrated formula payment rates of \$8,810 during the 1st year of the 2013-15 biennium and \$9,092 during the 2nd year, an inflationary increase based on total expenditures per student suggested by Picus during the 2008 study conducted for the North Dakota Commission on Education Improvement. She said minimum and maximum payment levels were established using a statutorily defined baseline funding level from the 2012-13 school year. From this baseline total, she said, the legislation called for a subtraction of 60 mills multiplied by the district's taxable valuation, not to exceed the amount in dollars subtracted the prior year plus 12 percent, and a subtraction of a specified portion of certain in lieu of taxes revenues.

The Legislative Council staff said prior to 2013, the board of a school district was authorized to levy an amount sufficient to cover a multitude of expenses; however, the enactment of House Bill No. 1013 (2013) provided for the consolidation of these levies. She said the bill authorized the board of a school district to levy:

- A tax not exceeding the amount in dollars that the school district levied for the prior year, plus 12 percent, up to a levy of 70 mills on the taxable valuation of the district, for any purpose related to the provision of educational services;
- No more than 12 mills on the taxable valuation of the district, for miscellaneous purposes and expenses;
- No more than 3 mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with North Dakota Century Code Chapter 57-19; and
- No more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with Section 15.1-29-15.

The Legislative Council staff said to meet its study directive, the 2013-14 interim Education Funding Committee asked Picus to review its 2008 recommendations and conduct a recalibration using an evidence-based model and the most recent data available. She said based on available information and assumptions, Picus recommended recalibrated weighting factors and increased payment rates from the 2013-15 biennium levels of \$8,810 and \$9,092 to \$9,347 and \$9,442. She said the committee did not recommend the Picus funding model.

The Legislative Council staff said the Legislative Assembly approved Senate Bill No. 2031 (2015) which provided increases in the integrated payment rate of 3 percent per year during the 2015-17 biennium, based on the integrated formula payment rate during the 2nd year of the 2013-15 biennium. She said integrated payment rates were set at \$9,365 during the 1st year and \$9,646 for the 2nd year of the 2015-17 biennium. She said the Legislative Assembly also approved Senate Concurrent Resolution No. 4003 (2015), which proposed a constitutional amendment to allow the Legislative Assembly to appropriate or transfer the principal balance of the foundation aid stabilization fund in excess of 15 percent of the general fund appropriation for state school aid for the most recently completed biennium for education-related purposes. She said the resolution was approved by voters in November 2016.

The Legislative Council staff said the Legislative Assembly approved House Bill No. 1324 (2017) which included an adjustment to set the integrated payment rate at \$9,646 for each year of the 2017-19 biennium, the same as the 2nd year of the 2015-17 biennium. She said the Legislative Assembly provided an appropriation of \$1,935,204,163, of which \$1,334,657,258 is from the general fund, \$295,000,000 is from the foundation aid stabilization fund, and \$305,546,905 is from the state tuition fund for state school aid integrated formula payments. She said of the \$295,000,000 provided from the foundation aid stabilization fund, \$185,000,000 was considered one-time funding.

The Legislative Council staff said prior to December 8, 2016, the principal of the foundation aid stabilization fund was available only upon order of the Governor to offset foundation aid reductions made by executive action due to

a revenue shortfall. However, she said, the approval of Senate Concurrent Resolution No. 4003 (2015) by voters allowed the Legislative Assembly to appropriate or transfer the principal balance of the foundation aid stabilization fund in excess of 15 percent of the general fund appropriation for state school aid for education-related purposes. She said the Legislative Assembly approved Senate Bill No. 2272 (2017) and House Bill No. 1155 (2017) which amended Section 54-44.1-12 to provide any reductions to the general fund appropriation to the Department of Career and Technical Education for grants to school districts due to allotment are also offset by funding from the foundation aid stabilization fund. She provided an analysis of the foundation aid stabilization fund for the 2017-19 biennium and 2019-21 biennium for the committee's review.

The Legislative Council staff said the Legislative Assembly approved Senate Bill No. 2265 (2019). She said the bill creates a one-time Education Funding Formula Review Committee to study the K-12 funding formula and report to the 67th Legislative Assembly; directs Department of Public Instruction (DPI), the Indian Affairs Commission, and the Kindergarten Through Grade Twelve Education Coordination Council to study the effect of impact aid on the funding formula for reservation schools; and requires the Education Standards and Practices Board to provide status reports to the Legislative Management during the 2019-20 interim and the 2021-22 interim regarding the number of teacher permits issued under an alternative teacher certification program and to provide a recommendation regarding the continuation of the program. In addition, she said, the bill included several adjustments to the state school aid formula, including adjustments to:

- Convert the school calendar from days to hours;
- Provide rapid enrollment grants in the 1st year of the biennium and for a phase-in of on-time funding;
- Reset baseline funding to the 2018-19 school year;
- Reduce baseline funding for districts that become elementary school districts;
- Phase out both the dollar amount transition minimum and the baseline funding per weighted student unit minimum beginning in the 2021-22 school year;
- Increase the per-student payment by 2 percent each year of the biennium, to provide \$9,839 per weighted student unit in the 2019-20 school year and \$10,036 per weighted student unit in 2020-21 school year;
- Adjust the calculation of transition minimum payments to provide a 1 percent increase over the new baseline in the 1st year of the biennium and a 2 percent increase over the new baseline in the 2nd year of the biennium;
- Provide weighted student units over the baseline weighted student units are reimbursed at the formula payment rate, instead of the baseline funding per weighted student unit rate;
- Increase transition maximum payments by 5 percent each year of the 2019-21 biennium;
- Increase the local property tax deduction calculation each year, beginning in the 2020-21 school year, to transition all districts to a deduction of 60 mills in the 2025-26 school year;
- Allow school districts to levy additional tax to recover the increase in the property tax deduction in the state school aid formula until all districts are levying and deducting 60 mills in the state school aid formula;
- Reduce the deduction for in lieu of revenue to 75 percent for all revenue types listed, exempt tuition from nonresident students residing in a state with which the state has not entered a cross-border education contract, exempt tuition received from an adjacent school district by certain accepting school districts, and reduce all in lieu of revenue types by the percentage of mills levied in 2018 by the school district for sinking and interest relative to the total mills levied in 2018;
- Provide the Superintendent of Public Instruction use funding provided for state aid to pay South Dakota if more North Dakota students attend South Dakota schools; and
- Require admitting school districts meeting certain criteria to charge 200 percent of the statutory tuition payment calculation or \$4,000, whichever is greater, and that the tuition received by these school districts is not deducted in the formula.

The Legislative Council staff said, based on state school aid formula provisions approved in Senate Bill No. 2265 (2019), the Legislative Assembly provided an appropriation of \$2,098,202,429, of which \$1,610,438,429 is from the general fund, \$110,000,000 is from the foundation aid stabilization fund, and \$377,764,000 is from the state tuition fund, for integrated formula payments. She said this level of funding represents an increase of \$162,998,266, including increases in funding of \$275,781,171 from the general fund and \$72,217,095 from the state tuition fund offset by a decrease in funding from the foundation aid stabilization fund of \$185,000,000, from the 2017-19 biennium appropriation for integrated formula payments of \$1,935,204,163.

The Legislative Council staff said integrated formula payments during the 2019-21 biennium were estimated based on 2019-20 school year average daily membership (ADM) of 112,630 students and 2020-21 school year ADM of 116,634 students. She said DPI estimates state school aid integrated formula payments will total \$2,714,393,010 during the 2019-21 biennium, of which \$537,999,973 is estimated to be provided through local property tax contributions, \$100,049,326 is estimated to be provided through local in lieu of taxes and revenue contributions, and \$2,076,343,711 is estimated to be provided by the state. In addition to the state's share of state school aid integrated formula payments, she said, the appropriation for 2019-21 biennium integrated formula payments include funding for costs related to child placement, regional education association grants, the gifted and talented program, estimated cross-border tuition payments to South Dakota, and budget variances. She said the department estimates these expenditures and budget variances will total \$21,858,718, for a total of \$2,098,202,429 charged to the integrated payment line item for the 2019-21 biennium.

The Legislative Council staff said for the 2019-21 biennium, the Legislative Assembly approved increases in integrated formula payments totaling \$348 million from the base budget, including \$54 million for costs associated with projected student growth, \$185 million to replace one-time funding from the foundation aid stabilization fund, and \$109 million for statutory changes to the state school aid formula. She said based on total integrated formula payments, the state's share of funding for state school aid is expected to shift from 54 percent in 2009 to 77 percent during the 2019-20 school year. She said in addition to the \$2.098 billion provided for integrated formula payments, the Legislative Assembly provided \$55.5 million for transportation aid payments and \$24 million for special education contract payments. She said the Legislative Assembly also provided \$3 million for rapid enrollment grants in the 1st year of the 2019-21 biennium.

The Legislative Council staff said the Legislative Assembly, in Senate Bill No. 2013 (2019), appropriated \$111.2 million from the foundation aid stabilization fund for integrated formula payments (\$110 million) and for a one-time state automated reporting system rewrite (\$1.2 million). In addition, she said, the Legislative Assembly, in Senate Bill No. 2265 (2019), provided one-time funding from the foundation aid stabilization fund for music education grants (\$800,000) and rapid enrollment grants in the 1st year of the biennium (\$3 million). She said the Legislative Assembly also approved Senate Bill No. 2214 (2019) to provide for a transfer of \$75 million from the foundation aid stabilization fund to the school construction assistance revolving loan fund during the 2019-21 biennium. In addition to the transfer, she said, Senate Bill No. 2214 provides legislative intent that the 67th Legislative Assembly appropriate \$110 million from the foundation aid stabilization fund to DPI for providing ongoing funding for state school aid and transfer \$75 million from the foundation aid stabilization fund to the school construction assistance revolving loan fund during the 2021-23 biennium.

The Legislative Council staff presented the following proposed study plan for the committee's consideration:

1. Receive updates from DPI regarding 2017-19 biennium and 2019-21 biennium enrollment and state aid for elementary and secondary education.
2. Receive information from DPI regarding an analysis of the impact of state school aid formula changes, except on-time funding, approved by the Legislative Assembly in 2019, if those changes were applied 5 years retroactively to state school aid.
3. Receive information from the Tax Commissioner regarding the impact of the state aid funding formula on property taxes assessed for elementary and secondary education in the state.
4. Receive updates from DPI regarding the actual impact of formula changes approved by the 2019 Legislative Assembly on state school aid provided during the 2019-21 biennium.
5. Gather and review information from stakeholders regarding the impact of formula changes approved by the 2019 Legislative Assembly and challenges of the state school aid formula.
6. Gather and review information regarding potential changes to the funding formula to ensure equity, adequacy, and sustainability.
7. Develop committee recommendations and prepare any legislation necessary to implement the committee recommendations.
8. Prepare a final report for submission to the Legislative Management.

Vice Chairman Owens said, in order to advance discussion regarding the funding formula, Chairman Schaible has determined the committee would invite certain school district personnel to join the committee at the table to provide input. He invited the following three school district superintendents and three school district business managers to join the committee at the table:

- Dr. Mike Bitz, Superintendent, Mandan Public School District;

- Dr. Steve Holen, Superintendent, McKenzie County School District #1;
- Mr. Brandt Dick, Superintendent, Underwood Public Schools;
- Mr. Mark Lemer, Business Manager, West Fargo Public Schools;
- Mr. Darin Scherr, Business and Operations Manager, Bismarck Public Schools; and
- Mr. Scott Berge, Business Manager, Grand Forks Public Schools.

Vice Chairman Owens said Mr. Berge's position will be a rotating position and another individual may be called upon to fill the position as necessary to provide certain expertise. He said these individuals have experience with the state school aid formula and can assist the committee with its study.

At the request of Vice Chairman Owens, Mr. Adam J. Tescher, Director, School Finance and Organization, Department of Public Instruction, provided information ([Appendix B](#)) regarding a review of student placement costs; an update on final state school aid paid during the 2017-19 biennium; and an update on elementary and secondary student enrollment. Mr. Tescher also provided a retroactive analysis ([Appendix C](#)) of the estimated effects of current legislation on state school aid provided to school districts since the state school aid formula was adopted in 2013. He said the Legislative Assembly allowed the Superintendent of Public Instruction to transfer up to \$4 million from the integrated formula payments line item to the grants - special education line item to provide funding for 2017-19 biennium special education contract expenditures in excess of the 2017-19 biennium special education contract appropriation. He said after the \$4 million transfer, the department still was required to use \$2 million in the grants - special education line item for the 2019-21 biennium to provide reimbursement for 2017-19 special education contract obligations. He said there are two types of student placement contracts, agency placed and school placed. He said when the placement is voluntary by a legal guardian; made by a state or county social service agency; ordered by state court, tribal court, or juvenile services; or in a state-operated institution, the district is responsible for the state average cost per student. He said charges over the state average cost per student are reimbursed by the state. He said the resident district is responsible for four times the state average cost per student when the district places the student out of district for education purposes. He said if the high-cost student remains in their resident district, the district will be reimbursed for any cost exceeding four times the state average cost per student. He said during the 2017-18 school year, 1,120 students were involved in 1,744 student contracts and during the 2018-19 school year, 1,128 students were involved in 1,672 student contracts. He said one student may be involved in more than one contract if the student transfers during the year. He said the data represents only contracts reimbursed. He said because the department did not have sufficient funding at the end of both the 2015-17 biennium and the 2017-19 biennium, but had authority to use current funding to reimburse contract costs from the prior biennium, the 2017-18 school year data includes contracts from the prior biennium. He said the data from the 2018-19 school year is incomplete because some contracts were reimbursed using 2019-21 biennium funding. He said for the 2017-19 biennium, the average reimbursement was \$9,406 per student. He said during the 2017-19 biennium, 916 contract reimbursements were under \$500 and 127 contract reimbursements exceeded \$50,000, with 27 contract reimbursements exceeding \$90,000. He said challenges of the special education contract system include:

- Residency determination, including the definition of custodial parent and legal guardian, and challenges related to unaccompanied refugee minors;
- Calculating the actual cost of education per student; and
- Timely notification of placements and contracts by agencies still using paper forms.

In response to a question from Senator Poolman, Mr. Tescher said the most expensive placement reimbursements could be in many different facilities, but most are at the Anne Carlsen Center.

Mr. Lemer said most school districts complete special education applications through the department's online system; however, paper contracts may be from police departments and other placing agencies where, in many cases, a different person is completing the form each time.

In response to a question from Representative Nelson, Mr. Tescher said education may include related services, such as mental health services, but room and board is reported separately and is not part of the cost of education.

Mr. Tescher reviewed the status of state school aid for the 2017-19 biennium. He said after transferring \$4 million to the special education contracts line item, the department anticipates unspent funding in the integrated formula payments line item will be \$12.78 million. He said unspent funding in the transportation grants line item will be \$1.1 million. He said actual ADM was .5 percent less than budgeted during the 1st year of the 2017-19 biennium and .1 percent less than budgeted during the 2nd year of the biennium. He said contributions from property tax during 2017-19 biennium were \$3.3 million less than budgeted, but contributions from local in lieu of revenue were \$8.8 million more than budgeted.

Mr. Tescher said, in the fall of 2018, the department anticipated enrollment for the 2018-19 school year would be 110,842 students. He said school districts have submitted actual spring enrollment for the 2018-19 school year, but the department has not finished processing the reports. He said the department would provide information regarding final enrollment for the 2018-19 school year when it becomes available. He said during the 2019-20 school year and the 2020-21 school year, the department anticipates school districts will add 2,345 and 3,160 students, respectively, for total enrollment of 113,187 in the 1st year of the 2019-21 biennium and 116,347 students in the 2nd year of the biennium. He said most of the student growth is expected in kindergarten and elementary grades.

Mr. Tescher reviewed a retroactive analysis of the estimated effects of 2019 legislation on state school aid provided to school districts since the state school aid formula was adopted in 2013. He said, except for weighting factors that have been repealed and ending fund balance offsets, the analysis uses the actual ADM, payment rates, and weighting factors effective for the year analyzed. He said changes, approved by the 2019 Legislative Assembly, related to in lieu of property taxes were implemented in the 1st year of the analysis (2013-14 school year). He said, also beginning in the 1st year of the analysis, the payment for increased weighted student units was calculated at the per-student payment rate, instead of the transition minimum rate. He said, beginning in the 2nd year of the analysis, the contribution from property taxes was increased by 10 percent of the difference between 60 mills and the 12 percent maximum increase in dollars from the preceding year. He said the analysis also begins phasing out the transition minimum in the 2015-16 school year. He said the analysis does not include the effects of on-time funding, resetting baseline payments for districts that entered a cooperative agreement, the tuition revenue deduction for certain school districts, or school consolidations.

Mr. Tescher reviewed certain districts included in the report. He said retroactive state school aid calculations, included in the unshaded rows in the report for school years 2013-14 through 2018-19, have been adjusted to implement the 2019 formula changes, compared to the highlighted row in the report for the 2018-19 school year which represents the district's actual state school aid calculation, based on the formula as it existed during the 2017-19 biennium. He said districts on the formula did not see a difference in total funding. He said, depending on the types of in lieu of property tax revenue the district receives and whether the district levies for sinking and interest, districts on the formula may see a shift in the source of the total funding from local to state. He said changes made in 2019 benefit districts with sinking and interest levies, but reduce state funding for districts receiving minimum hold harmless adjustments. He said, because of the phase-in of the 60-mill deduction, districts levying less than 60 mills would have seen an increase in funding from property taxes and a shift from state funds to local property tax. He said if the transition minimum adjustments had been phased out over the 6 years since the formula was implemented, some districts qualifying for those adjustments would have had significant reductions in total funding.

At the request of Vice Chairman Owens, Dr. Aimee Copas, Executive Director, North Dakota Council of Educational Leaders, provided information ([Appendix D](#)) regarding challenges of the state school aid formula. Dr. Copas said in 2019 significant changes were made to the state school aid formula with the understanding that the effects of the implementation would be studied during the interim. She said the interim study will allow the committee to review the impact of the formula changes and recommend any adjustments to be considered during the next legislative session. She said ongoing concerns include areas of rapid growth and declining enrollment with the continuing need for a viable district for students. She said operational efficiency has been an issue for years. She said the state has made attempts to address the issue through the small school factor, but the issue deserves more study. She said other items to be studied may include the 60-mill property tax deduction, transition minimum adjustments, transition maximum adjustments, the timing of the hold harmless phase-out, transportation funding, and weighting factors. She said the committee may consider reviewing the criteria that determines whether a school district is on the formula. She said it may be acceptable for a school district to be within a range of funding, depending on size. She said based on funding formula assumptions made when the formula was implemented in 2013, school districts subject to the transition maximum adjustment receive less state school aid. She said school districts in areas of poverty require more resources. She said the phase-out of the hold harmless provisions should be balanced by weighting factor adjustments to support vital districts. She said the committee should consider reviewing a minimum school district size, acceptable travel distances for students, and the roles of K-6 and K-8 schools. She said the committee may want to consider options to the 60-mill property tax deduction. She said some of the challenges experienced in the state school aid formula arose from trying to balance property tax equity in the state school aid formula.

Mr. Charles Tuttle, Minot, said school districts compete for students. He said more populated school districts can absorb less populated land-rich schools and increase property taxes. He said if the state did not subsidize out-of-state students to attend institutions of higher education in the state, the funding could provide additional support for K-12 districts.

Senator Kyle Davison, Fargo, said the committee could define operational efficiency. He said the committee may consider reviewing demographic trends in special education contracts and the committee could gather information regarding the state's capacity, including residential space and workforce, to provide special education services.

In response to a question from Vice Chairman Owens, Senator Davison said small districts often lack experience in administrative duties such as human resources. He said to create operational efficiencies, one regional education association is providing business and payroll services. He said the association is encouraging school districts to create a North Dakota health insurance public trust. He said if school districts collaborate, technology could be used to centralize benefits administration and business services. He said the framework for efficiencies relies on the collaboration of school district leadership to be successful. He said the state should continue to encourage collaboration.

In response to a question from Vice Chairman Owens, Senator Davison said each school is unique regarding contract negotiations. He said if school districts had access to the state contract for health insurance, the districts may save money. He said the savings could provide more compensation or enhanced benefits.

Senator Rust said the North Dakota insurance reserve fund has been successful and there was an attempt to do the same with health insurance for school districts, but it was not successful.

ELEMENTARY AND SECONDARY EDUCATION TRANSPORTATION STUDY

At the request of Chairman Schaible, the Legislative Council staff presented a memorandum entitled [Elementary and Secondary Education Transportation Study - Background Memorandum](#) relating to the committee's study of elementary and secondary education transportation. The Legislative Council staff said Section 20 of Senate Bill No. 2013 (2019) provides for a study of school transportation, including district routes, expenditures, reimbursements, and possible efficiencies. She said this study was assigned to the Education Funding Formula Review Committee.

The Legislative Council staff said the 1957 Legislative Assembly approved a provision for transportation reimbursement that ranged from 25 cents per day for those two miles from school to 80 cents per day for those six miles from school and provided an additional 10 cents per day for each one-half mile over six miles. She said in the 1980s state transportation aid was paid to school districts according to the number of miles traveled, the size of schoolbuses being operated, and the number of students transported. She said state transportation aid steadily increased as a percentage of all transportation costs incurred by school districts. For the 1974-75 school year, she said, total transportation costs were \$10,594,437 and state transportation aid was \$5,592,617 or 52.8 percent. During the 1981-82 school year, she said, total transportation costs were \$23,112,963 and state transportation aid was \$17,523,956 or 75.8 percent. By the 1985-86 school year, she said, state transportation aid payments totaled \$20,189,000 or 88.6 percent of all school district transportation expenditures. She said there was a disparity in the percentage of transportation costs reimbursed to school districts. In general, she said, rural school districts with fewer students and long routes received the highest ratio of state aid to actual costs. She said many such districts received state aid in excess of 100 percent of their actual costs. She said the largest school districts with large student populations and relatively short bus routes received the lowest ratio of state aid to actual transportation costs. She said these districts typically received state aid in amounts varying between 40 and 75 percent of their transportation costs.

The Legislative Council staff said an issue that surfaced during the 1985 legislative session concerned certain school districts that charged for the transportation of rural school children. She said state law did not require school districts, other than those that have been reorganized, to provide transportation to schools. Therefore, she said, in school districts that had not been reorganized, certain costs of school transportation were charged to the parents of children who are bused to school. She said this practice was challenged by a Bismarck School District patron in *Bismarck Public Schools v. David Walker*, 370 N.W.2d 565 (N.D. 1986). She said the North Dakota Supreme Court in that case refused to determine whether there is a state constitutional right to free transportation to schools because it found the Bismarck School District patrons had signed a contract agreeing to pay transportation costs and thereby waived any rights to receive that transportation free of charge. She said this practice was challenged by a Dickinson School District patron in *Kadrmas v. Dickinson Public Schools*, 402 N.W.2d 897 (N.D. 1987). She said the assertion was that Section 15-34.2-06.1, which allowed nonreorganized school districts to charge for transportation, violated the North Dakota constitutional provision providing for a uniform system of free public schools. She said the North Dakota Supreme Court held that the constitutional provision mandating a uniform system of free public schools does not require the state or school districts to provide free transportation for students to and from school. On appeal, she said, the United States Supreme Court affirmed the constitutionality of the statute.

The Legislative Council staff said the transportation formula continued to be criticized because there was a wide disparity in the percentage of transportation costs reimbursed to school districts. She said the range in cost per mile was due to various factors. For example, she said, some school districts held costs down by hiring their own mechanics, buying used buses and used or rebuilt parts, paying immediate attention to maintenance, paying drivers to use their own cars, and planning and limiting routes. She said other variables that affect the cost of transportation from district to district included types of roads, replacement schedules for buses, and salaries of bus drivers. In addition, she said, some school districts receiving over 100 percent of their transportation costs were not factoring in administrative costs or depreciation as part of their transportation costs.

The Legislative Council staff said the Legislative Assembly approved House Bill No. 1003 (1993), the appropriations bill for the Superintendent of Public Instruction. She said this bill became the principal 1993 education funding enactment and capped state transportation payments at 100 percent of transportation costs for the 1st year of the 1993-95 biennium and at 90 percent for the 2nd year of the biennium. The bill directed that any savings resulting from imposition of the 90 percent cap during the 2nd year of the biennium be used by the Superintendent to increase the per student transportation payments. She said the Legislative Assembly, in Section 9 of the bill, provided \$100,000 from the general fund and \$60,000 from other funds to DPI for the purpose of studying school transportation services during the 1993-95 biennium. She said the department was to develop, by December 1, 1994, a school transportation system database that included the network of usable roads, school district boundaries, and the location of all schools and related facilities. She said the department was to negotiate with North Dakota State University to utilize any available information the university had regarding the study.

The Legislative Council staff said the 1995-96 interim Education Finance Committee learned that while transportation payments were limited to 90 percent of a district's current transportation operating cost, plus the 8-year average cost of transportation equipment, districts affected by the cap complained that reported transportation costs were not uniform among the districts. She said superintendents from smaller districts said they spend considerable time on busing--time that is not reflected in the cost calculations. Other districts, she said, charged costs to other users of transportation services on an ability-to-pay basis. For example, she said, an extracurricular program not having a budget for transportation may be subsidized by the regular transportation program in one district and not reported at all in another. Recognizing these inconsistencies, she said, the 1995 Legislative Assembly directed the Superintendent of Public Instruction to develop and require that school districts use a uniform cost accounting system for the transportation reimbursement program. She said the document, *Guidelines for Student Transportation Costs*, was issued in April 1996 and addressed contracted services, bus drivers, fuel, family transportation, repairs, maintenance, insurance, equipment costs, and the allocation of costs related to the district superintendent, business office, and school board.

The Legislative Council staff said the 2001-02 interim Education Committee learned data envelopment analysis, which involves an analysis of comparable operating units, could provide an alternate method for measuring and encouraging efficiency, as well as provide a basis for funding transportation. She said all school districts in the state would be divided into categories or peer groups. Once the categories or groups are established, she said, the next step would be to standardize the factors. She said school district transportation factors might include costs for administrators, drivers, mechanics, repairs, fuel, etc. Through use of a mathematical formula, she said, variables would be analyzed to determine the relative efficiency of each district. She said each district is compared to the other districts in its category or group. If funding is made a part of the formula, she said, the funding is then based on the operational cost of the most efficient district in the category. In addition to providing a basis for funding, she said, it is also able to assist school districts in reconfiguring their transportation routes so that the greatest possible degree of efficiency might be attained. She said the committee learned a data envelopment analysis project had been in a stage of partial completion for a number of years. She said an initial appropriation of \$50,000 was made for the project during the 1997 legislative session, but not supplemented in 1999 nor 2001.

The Legislative Council staff said the 2003 Legislative Assembly repealed Century Code sections related to payments for school district transportation of students, payments for school district transportation of special education students, payments for school district transportation of vocational and technical education students, certification of information for transportation payments, distribution of transportation payments in the school closure, and state transportation payments to school districts. She said the Legislative Assembly, in Section 31 of Senate Bill No. 2421 (2003), provided that DPI distribute transportation aid to each school district in the state in an amount equal to the transportation aid payments received by the school district during the 2001-03 biennium. In addition, she said, the Legislative Assembly approved Senate Bill No. 2032 (2003) to appropriate \$50,000 to the Superintendent of Public Instruction for the completion of the data envelopment analysis project.

The Legislative Council staff said the 2003-04 interim Education Committee once again reviewed data envelopment analysis as an alternate method for measuring and encouraging efficiency, as well as providing a basis for funding. She said the interim committee recommended House Bill No. 1033 (2005) to require the

Superintendent of Public Instruction to use data envelopment analysis as the basis for calculating school district transportation payments; however, the bill was not approved by the Legislative Assembly. Instead, she said, the Legislative Assembly, in Section 25 of House Bill No. 1154 (2005), required that for the 1st year of the 2005-07 biennium, DPI apply the transportation formula as it existed on June 30, 2001, except provide reimbursement for in-city mileage at the rate of 50 cents for schoolbuses having a capacity of 10 or more students and reimbursement for vehicles having a capacity of 9 or fewer students and transporting students who live outside the incorporated limits of a city at the rate of 40 cents per mile. She said the Superintendent was to use the latest available student counts in determining transportation payments. During the 2nd year of the biennium, she said, the Superintendent was to distribute the same amount to each school district as the district received during the 1st year of the biennium.

The Legislative Council staff said the 2007 Legislative Assembly continued to provide funding based on the state transportation formula, as it existed on June 30, 2001, during the 1st year of the biennium and to provide funding for 2nd year of the biennium be distributed to each school district in the same amount the district received for the 1st year of the biennium. Reimbursement rates, she said, in Section 48 of Senate Bill No. 2200 (2007), were adjusted to provide 51.5 cents per mile for schoolbuses having a capacity of 10 or more passengers and transporting students within city limits and 40 cents per mile for vehicles having a capacity of 9 or fewer passengers and transporting students in rural areas. She said a rate of 73.5 cents per mile for schoolbuses having a capacity of 10 or more passengers and transporting students in rural areas was added during the 2007-09 biennium.

The Legislative Council staff said the 2009 Legislative Assembly provided \$43.5 million from the general fund for transportation aid, \$10 million more than the 2007-09 biennium. Section 54 of House Bill No. 1400 (2009) provided that DPI was to distribute transportation aid for the 2009-11 biennium based on the state transportation formula as it existed on June 30, 2001, except that DPI was to provide reimbursement at the rate of 92 cents per mile for schoolbuses having a capacity of 10 or more passengers and 44 cents per mile for vehicles having a capacity of 9 or fewer passengers. She said the 2009 Legislative Assembly also adjusted the formula to resume funding based on the number of students transported. She said a reimbursement of 24 cents per student for each one-way trip was added to the transportation aid formula. She said beginning with the 2009-11 biennium, there is no longer a distinction between transporting students in rural areas and transporting students within city limits and funding during the 2nd year of the biennium is distributed based on the formula, instead of funding provided during the 1st year of the biennium.

The Legislative Council staff said the 2011 Legislative Assembly provided \$48.5 million from the general fund for transportation aid. She said this level of funding was the same as the 2009-11 biennium, which included a contingent \$5 million appropriation from the general fund for supplemental transportation aid payments. She said the appropriation was contingent on the Office of Management and Budget projecting during the 2009-11 biennium that the June 30, 2011, ending balance of the state general fund will be at least \$30 million more than estimated by the 2009 Legislative Assembly. She said the February 2011 executive revenue forecast estimated the conditions would be met and the contingent supplemental transportation aid payments would be made. She said reimbursement for two types of family transportation were added in 2011 and Section 36 of Senate Bill No. 2150 (2011) required DPI to distribute transportation aid for the 2011-13 biennium based on the state transportation formula as it existed on June 30, 2001, except that DPI is to provide reimbursement at the rate of:

- \$1.03 per mile for schoolbuses having a capacity of 10 or more passengers.
- 46 cents per mile for vehicles having a capacity of 9 or fewer passengers.
- 46 cents per mile round trip for family transportation of a student with a disability whose individualized education program plan requires that the student attend a school outside the student's school district of residence.
- 46 cents per mile one way for family transportation if the student lives more than two miles from the public school the student attends.
- 26 cents per student for each one-way trip.

The Legislative Council staff said, except for reimbursement rate increases, the transportation formula continued, based on the state transportation formula as it existed on June 30, 2001, for the 2013-15 and 2015-17 bienniums. She said the formula, still based on the state transportation formula as it existed on June 30, 2001, continued during the 2017-19 biennium; however, reimbursement rates and funding were reduced.

The Legislative Council staff said the 2019 Legislative Assembly reviewed funding for transportation aid. She said in testimony provided to the Legislative Assembly, DPI reported that, statewide, transportation aid provides approximately 50 percent of the cost of transportation to school districts. She said members of the House Appropriations Committee expressed concern regarding the formula and multiple reimbursement for the same miles on certain routes when districts cross paths and family transportation is reimbursed. She said concern also was expressed regarding the transportation formula subsidizing districts transporting students from other districts

and the inability to verify routes and reimbursement. She said the Legislative Assembly provided \$56.5 million from the general fund for transportation aid during the 2019-21 biennium. She said this level of funding is \$1.1 million more than 2017-19 biennium funding of \$55.4 million from the general fund and will allow reimbursement rates to remain the same as the 2017-19 biennium. She said Section 10 of Senate Bill No. 2013 (2019) requires DPI to distribute transportation aid for the 2019-21 biennium based on the state transportation formula as it existed on June 30, 2001, except that DPI is to provide reimbursement at the rate of:

- \$1.11 per mile for schoolbuses having a capacity of 10 or more passengers.
- 52 cents per mile for vehicles having a capacity of 9 or fewer passengers.
- 50 cents per mile round trip for family transportation of a student with a disability whose individualized education program plan requires that the student attend a school outside the student's school district of residence.
- 50 cents per mile one way for family transportation if the student lives more than two miles from the public school the student attends.
- 30 cents per student for each one-way trip.

The Legislative Council staff presented the following proposed study plan for the committee's consideration:

1. Receive information from DPI regarding how transportation aid for elementary and secondary education is determined and distributed under the state aid funding formula, including reporting, mapping requirements, and department oversight.
2. Receive information from DPI regarding transportation aid funding provided for students attending school districts outside of their residential district.
3. Receive information from DPI regarding transportation aid funding provided for family transportation, and to the extent available, information regarding transportation funding provided for family transportation of students attending school districts outside of their residential district.
4. Receive information from DPI regarding a prior data envelopment analysis project.
5. Receive information from DPI regarding department guidelines for student transportation costs issued by DPI and provided to school districts.
6. Receive information from DPI regarding a comparison of state transportation aid to the actual cost of transportation by school district.
7. Receive information from stakeholders regarding the impact of transportation aid funding on elementary and secondary education in the state.
8. Receive information from DPI and others regarding inequities and challenges in the application of the state transportation formula and possible improvements to provide equity and encourage efficiency.
9. Gather and review information regarding potential changes to the state transportation formula to ensure efficiency, equity, adequacy, and sustainability.
10. Develop committee recommendations and prepare any legislation necessary to implement the committee recommendations.
11. Prepare a final report for submission to the Legislative Management.

At the request of Chairman Schaible, Mr. Tescher provided information ([Appendix E](#)) regarding the process of determining and distributing transportation aid for elementary and secondary education under the state transportation aid funding formula. Mr. Tescher said school districts are required to submit two transportation reports by June 30 each year. He said the vehicle inventory report includes information regarding license number, capacity, year manufactured, year purchased, vehicle type, ownership, and vehicle purpose--activity, regular, or standby. He said the routes report provides information regarding total miles, total rides, maximum ride time, primary vehicle, and route type--rural, city, or special education. He said DPI provides reimbursement based on the rates in Senate Bill No. 2013 (2019). He said reimbursement is limited to 90 percent of general fund transportation expenditures less equipment cost, plus the 8-year average of transportation equipment expenditures and an allocated percentage of the expenses of the school board, superintendent, and business manager offices. He said the allocation is based on the percentage of general fund transportation expenditures to total general fund budget.

Mr. Tescher provided a summary of route types available in the department's transportation guide. He said although the reimbursement rates no longer distinguish between rural and in-city routes, the department collects information regarding whether the route is rural or in-city. He said transportation grants are distributed on the same schedule as the state school aid payments.

In response to a question from Chairman Schaible, Mr. Tescher said the information provided by school districts is not audited by the department. He said school districts and contractors are expected to determine the number of students transported each day. He said no student should exceed 350 rides, unless the district exceeded 175 contact days due to early dismissals.

In response to a question from Representative Sanford, Mr. Tescher said the department does not collect data regarding open enrollment rides. He said transportation for open enrollment students is not identified and would be reimbursed with resident students.

At the request of Chairman Schaible, Mr. ElRoy Burkle, Executive Director, North Dakota Small Organized Schools, provided information ([Appendix F](#)) regarding transportation aid funding and the impact of transportation aid on elementary and secondary education in the state. Mr. Burkle said since 2009, transportation reimbursement rate increases have not kept pace with increases in the per-student payment. He provided a summary of total rides and runs each year from 2007 through 2018. He said from 2007 to 2018, there was a significant increase in city ridership. He said rural, special education, and vocational education rides also increased during that period. He said payment for school transportation is based on data from the previous year. He said transportation payments for the 2018-19 school year were based on 2017-18 rides and ranged from a low of \$6,352 paid to Earl 18 Public School to a high of \$1.2 million paid to Bismarck Public Schools. He said separate payments also are made to numerous special education units for qualified transportation services.

Mr. Burkle provided a summary, based on information published by DPI, of transportation data from the 1992-93 school year through the 2017-18 school year, including number of students, transportation cost, change in annual cost, state payments, percent of state support, cost per student, cost per mile, total annual mileage, fall enrollment, number of operating school districts, and percent of all state support. He said the number of students transported ranged from a high of 49,117 students during the 1998-99 school year to a low of 37,257 students during the 2004-05 school year. He said during the 2017-18 school year, 43,613 students were transported. He said from the 1992-93 school year through the 2017-18 school year, the number of students transported decreased by 1 percent. He said in addition to a reduction in the number of routes, there was a 10 percent reduction in annual miles traveled during the same time period and the number of school districts declined from 257 to 178. He said the local cost of transportation increased to a record \$65.7 million during the 2017-18 school year. He said a shortage of qualified bus drivers has forced both school districts and contractors to increase wages and benefits. He said the average transportation cost of \$1,507 per student and the average cost of \$2.95 per mile during the 2017-18 school year, are record highs. He said during the 2017-18 school year state payments to school districts for transportation totaled \$26.8 million, or 40.8 percent of the cost of transportation. He said while the percentage of state support for all programs, including per-student payments, transportation, career and technical education, special education and others, has increased, the percentage of state support for transportation has been decreasing.

Mr. Burkle said transportation challenges include the cost of buses and bus repair, bus driver shortages, wages and benefits increases, and fluctuating fuel prices. In addition, he said, recent Federal Motor Carrier Safety Administration changes will require new bus drivers, after February 8, 2020, to be certified in both classroom and behind-the-wheel training which will result in additional training expense. He said the current method of funding transportation, through miles and ridership, provides flexibility for school districts.

Chairman Schaible suggested the committee request information regarding transportation funding provided in other states from various national organizations. He said the committee should consider whether the state should provide reimbursement for the transportation of open enrollment students.

Representative Monson said the members of the Education and Environment Division of the House Appropriations Committee expressed concern regarding the efficiency of reimbursing buses from different districts passing each other to pick up students in the same district.

Mr. Lemer said in larger districts that accept students through open enrollment, there is a presumption that it is the parents' responsibility to pay for transportation. However, he said, in rural areas the transportation aid payment may make open enrollment viable.

Chairman Schaible said the accepting district could use the additional per-student payment, received for the open enrollment student, to provide transportation.

In response to a question from Chairman Schaible, Mr. Bitz said he is not aware of any students being bussed out of the Mandan Public Schools district. He said the Mandan Public Schools district does not bus students from other districts into Mandan.

In response to a question from Chairman Schaible, Mr. Tescher said the department collects open enrollment data, but does not have data on the transportation payments related to open enrollment students. He said the information would need to be requested from school districts.

Chairman Schaible said if districts were required to report miles and rides related to open enrollment students, the information would be available to better determine the impact of open enrollment transportation costs.

Mr. Scherr said Bismarck Public Schools transport approximately 4,000 students. He said, except in rare cases, the district does not allow open enrollment. He said when a student transfers to a different school within the district, the district does not provide transportation. He said the district relies on information technology software to manage routes and riders.

Representative Nelson said his district is rural but schools are clustered and districts will enter another town to pick up an open enrollment student. He said there is a concern that the state is subsidizing school districts busing students from other towns.

Senator Heckaman said six different school districts pick up students in one town in her legislative district. She said another school district with a handful of students is transporting over 50 students into their school district to keep their school open.

Mr. Holen said Watford City does not pick up students in other districts, but other districts pick up students in Watford City. He said it is not the state's responsibility to pay for the transportation of open enrollment students. He said the state may benefit from transportation accountability software similar to PowerSchool.

Mr. Daniel Ludvigson, Superintendent/Elementary Principal, Elgin/New Leipzig Public School, said there is competition for students. He said his district increased its number of students by providing transportation to students enrolling from another district.

In response to a question from Chairman Schaible, Mr. Ludvigson said if transportation were not reimbursed by the state, a district may be willing to absorb a certain amount of cost related to the transportation of an open enrollment student to gain the per-student payment. He said the school board would have to establish a policy regarding how far the district is willing to travel outside its boundary to pick up an open enrollment student.

OTHER COMMITTEE RESPONSIBILITIES

The Legislative Council staff presented a background memorandum entitled [Other Duties of the Education Funding Formula Review Committee - Background Memorandum](#). She said in addition to the study responsibilities assigned to the Education Funding Formula Review Committee for the 2019-20 interim, the committee has been assigned to:

- Receive an annual report from the Superintendent of Public Instruction by the end of February on the financial condition of school districts (Section 15.1-02-09); and
- Receive from the Superintendent the compilation of annual school district employee compensation reports (Section 15.1-02-13).

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

Mr. Lemer said the special education unit of DPI may be commissioning a working group to study the special education contract system. He suggested the committee receive information from DPI regarding the department's study of the special education contract system, including any recommendations that may lead to legislation and the possible impacts of those recommendations on school districts.

In response to a question from Chairman Schaible, Mr. Tescher said the department's study of the special education contract system will review the process of determining the cost of a special education student, including allocated costs and other types of costs included in the contract.

Chairman Schaible said the committee should receive information regarding the department's study of the special education contract system, including any recommendations for changes.

Mr. Lemer said the state has been operating under a 2005 Attorney General's opinion regarding impact aid to the two schools located on Air Force bases in the state. He suggested the committee review the opinion and whether legislative action since 2005 may affect the opinion.

Chairman Schaible said the committee should review air force base impact aid and its effect on formula payments. He said DPI, the Indian Affairs Commission, and the Kindergarten Through Grade Twelve Education Coordination Council have been assigned to study the effect of impact aid on the funding formula of reservation schools. He said the results of their study should also be presented to the committee.

Mr. Lemer suggested the committee review the role of property tax relief in the state school aid funding formula. He said while the formula strives to deliver equity in school funding, the formula also must consider taxpayer equity. He suggested the committee consider components necessary to maintain a reasonable balance between state and local resources both statewide and at the district level.

In response to a question from Chairman Schaible, Mr. Lemer said minimum and maximum adjustments indicate there are school districts of varying sizes which do not seem to be able to operate on the formula. He said weighting factors and school district size factors should be reviewed, but there is a question regarding whether taxpayer fairness should be considered in the school funding formula.

Representative Nelson said equity is missing in school construction funding. He said a reasonable level of local contribution to providing school buildings should be part of the discussion.

Senator Rust said transition minimum schools in his legislative district have enrollments that fluctuate significantly each year. He said local revenue also fluctuates. He said if minimum adjustments are phased out, school districts would benefit from additional flexibility to build a larger ending fund balance. He said the larger ending fund balance would allow school districts to respond to fluctuations in student enrollment.

Senator Rust suggested the state consider providing grants to school districts experiencing rapid enrollment, but which are unable to approve a bond issue to build new school buildings.

Chairman Schaible said the student-driven funding formula is a disincentive for reorganization. He said the committee should determine requirements to be considered a viable school district and the state's responsibility to nonviable districts.

Mr. Dick suggested the committee review weighting factors and school construction financing in other rural states.

Chairman Schaible said the committee could receive information from the Education Commission of the States regarding funding formulas and school construction financing.

Representative Sanford suggested the committee examine whether the weighting factors in the formula accurately reflect the cost of educating certain students.

Mr. Lemer said the relationship between funding and the determination of the weighting factors has made it difficult to determine the appropriate cost. He said consultants, such as Picus, have been asked to provide an unbiased analysis, but have had difficulty due to the unique demographics of North Dakota.

In response to a question from Chairman Schaible, Mr. Lemer said he has been disappointed in the work of previous consultants. He said the department may be able to determine appropriate weighting factors based on districts of similar size and demographics. He said adjusting the weighting factors may provide enough additional funding to shift districts from a transition minimum adjustment to being on the formula. He said school districts currently receiving large transition minimum adjustments will be unable to sustain reductions in those adjustments, unless other changes are made to the formula or districts are reorganized. He said if it is found that a district is efficient, but still needing a transition minimum adjustment, then the formula could be the problem.

Representative Sanford suggested the committee review a model school district format to determine weighting factors.

Mr. Lemer said Picus grouped districts into three model sizes; however, the result was not helpful because there is more variation in North Dakota school districts. He said model school districts could focus more on districts receiving transition minimum adjustments.

Mr. Dick said for many schools costs do not vary much with the gain or loss of a few students, but the funding related to those students is more significant. He suggested grouping schools by size and providing funding based on the demographics of the group.

Senator Rust suggested the committee receive information, by school district, regarding each source of funding in the state school aid formula, including the percent each source--property tax, local revenue, and state funding--represents in the total formula calculation.

Mr. Holen suggested the committee review the 60-mill deduction and possible alternatives to the 60-mill deduction, including local revenue. He suggested reviewing the possibility of school districts using local revenue to meet part of the district's 60-mill deduction requirement.

Chairman Schaible said the next committee meeting likely will be in mid to late September.

Chairman Schaible said he will request information from the Education Commission of the States regarding transportation funding, school construction financing, weighting factors, and model school funding.

Chairman Schaible suggested funding formula recommendations be communicated to him in advance of committee meetings, so DPI has an opportunity to calculate the impact of the changes for review at the committee meeting.

No further business appearing, Chairman Schaible adjourned the meeting at 3:05 p.m.

Sheila M. Sandness
Senior Fiscal Analyst

ATTACH:6